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SUBJECT: UK CALLS ON EU TO INVESTIGATE U.S. BIODIESEL SUBSIDIES

11. Summary: The UK Government has associated itself with its biodiesel industry in asking the EU to investigate whether US subsidies on biodiesel are trade distorting and should give rise to countervailing duties. HMG has "no appetite for a fight" about this, and wants to continue importing biodiesel, but worries that the low-priced US product is stifling investment in a potentially important industry based in some of the poorer regions of the UK. Ireland, Germany, the Netherlands and possibly France may also weigh in alongside the UK. End Summary.

12. Fergus Harradence, Head of Unit, and Phil Richards, Sr. Policy Advisor, Multilateral Trade Negotiations, Dept of Trade and Industry briefed EconCouns June 14 on UK concerns about US subsidies on biodiesels. DTI was sensitized to this issue by the Depts. of Transport and HMTreasury and by the British biodiesel industry. According to the industry, US subsidies result in a \$100/tonne price advantage for US biodiesel in the UK market (\$675/tonne vs. \$775 on average for UK-produced biodiesel.) Imports from the US also benefit from subsidies given to European producers, which the EU allows the various member states to offer their nascent industries. In the UK it is 20 pence per liter. The industry argues that it is impossible to compete with US-subsidized product, even using the lowest cost inputs available to them such as waste vegetable oil from "chip shops" (French fry vendors).

13. As troubling as the direct price competition is, the industry contends that the relatively small amount of US imported biodiesel is having a more far-reaching effect on overall price expectations in the entire market, our DTI contacts continued. The industry argues that the low price for US product, even though not widely available, drives the price the rest of industry can charge. This low price point is damping down investment in British biodiesel. This is particularly troubling for the UK government because the British biodiesel industry is centered in the economically depressed regions in the north east and north west of the UK, areas the government has targeted for development. The areas have many advantages for biodiesel: cheap land prices, existing energy infrastructure and expertise, and deep water ports. Not insignificantly, a key minister for this issue, Environment's David Milliband, a rising star in the Labour Party, is an MP from a constituency in the north east, Harradence noted.

14. In response to the industry's lobbying, four ministers (from DTI, Treasury, Transport and DEFRA (Dept of Environment, Farming and Rural Affairs) wrote to EU Trade DG Peter Mandelson to request a countervailing duty investigation. Harradence stressed that HMG had no "appetite for a full scale fight" on this. They did not want to push for a ban on imports, for example, even if a Commission investigation confirmed the industry's allegations that the US subsidy was distorting trade. The only remedy under consideration was a countervailing duty. He noted that both sides to the dispute were subsidizing their producers in various ways and amounts. The EU needed biodiesel imports to meet its own targets. It had little arable land available for this. There are few other alternative sources, moreover. Brazil produces bioethanol. South Africa produces some biodiesel but does not export much.

¶5. The industry, represented by the European Biodiesel Board (EBB) on behalf of its member associations at the national level, will need several months to prepare its submission to the Commission. If the submission convinced the Commission there was sufficient prima facie evidence of a problem, the Commission could then take up to 13 months to investigate. It is possible that it will conclude that no harm has been done. The initial reaction from the Commission has been somewhat skeptical about the EBB's allegations. Harradence considered it quite possible that an investigation would conclude that no injury was done. He was also skeptical about press reports of EU traders sending biodiesel roundtrip across the Atlantic to collect US subsidies and return to the EU market, the so-called "splash and dash" gambit. He thought it more likely that biodiesel from Malaysia or elsewhere had benefited from this approach.

¶6. Ireland, Germany and the Netherlands also share the UK's concerns. Harradence expected France to join in as well, but has not heard from them. Other EU biofuel producers, such as Sweden, are less concerned because they produce bioethanol, not biodiesel. He said the key EU interlocutor at the Commission was a Briton, Steve Gospage.

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